



CONCORDE CAPITAL

Ukraine / Steel

Ukrainian steel makers

Wake up to record high steel prices

April 04, 2008

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Company

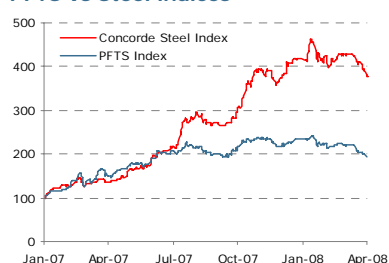
Arcelor Mittal Kriviy Rih
Azovstal
MMK Illicha
Alchevsk Iron & Steel
DMK Dzerzhinskogo
Enakievo Steel
DMK Petrovskogo
Zaporizhstal

Bloomberg

KSTL UZ
AZST UZ
MMKI UZ
ALMK UZ
DMKD UZ
ENMZ UZ
DMZP UZ
ZPST UZ

	# of sh., mln	MCap, USD mln	Free Float % USD mln	
ENMZ	10.4	789.6	13.8%	109.0
DMKD	971.8	1,621.9	7.2%	14.6
AZST	4,194.3	4,094.6	1.5%	62.6
DMZP	1,849.4	606.1	4.4%	26.8
MMKI	3,351.7	4,002.1	2.0%	80.0
ALMK	10,775.3	2,457.6	5.0%	122.9
KSTL	3,859.5	14,119.8	1.1%	152.5
ZPST	2,643.6	2,181.0	4.0%	87.2

PFTS vs Steel indices⁽¹⁾



Dragged down by overall bearish sentiment, Ukrainian steel stocks have remained unresponsive to the rapid growth in commodity prices: Concorde's Steel Index⁽¹⁾ is 10% lower YTD, while export prices for steel have grown 45%-60%. We forecast steel prices to rise 55% yoy over 2008, as on strong demand steel producers will be able to almost fully pass through cost inflation to consumers, maintaining profitability. We keep a bullish view on the sector, rating six local steelmakers BUY, while reiterating SELL on KSTL.

We upgrade our 2008 forecasts for steel prices +20...35%

Global steel prices have surged 45-60% YTD amid decreasing steel exports from China in 2M08 (down 17%) and growing global demand. We expect prices to soften in the second half of the year, the typical seasonal pause, and upgrade our annual forecasts by an average of 20% to USD 800 for billets and 35% to USD 870 per mt for flat steel products.

Steel price forecast revisions

	2007	2008E		2009E	
		Old	New	Old	New
Semi-finished (square billet)	505	606	800	636	840
Semi-finished (round billet)	570	684	810	718	850
Long steel products	560	640	865	680	910
Flat steel products	548	660	870	695	915

Source: Concorde Capital estimates

Profitability to remain robust, cash earnings will grow 44%

Since April 1, 2008, annual contract prices for iron ore rose 65-70% globally. However, a strong rally in steel prices since November 2007 indicates that steel makers worldwide are effectively passing the rising costs to final consumers. We estimate a mixed bag for Ukrainian non-integrated producers in 2008: their cash earnings will get a boost of USD 55 per mt of square billet from USD 125 to USD 180, even though profitability will decrease slightly, by approximately 1%-2%.

Upgraded targets suggest hefty upsides

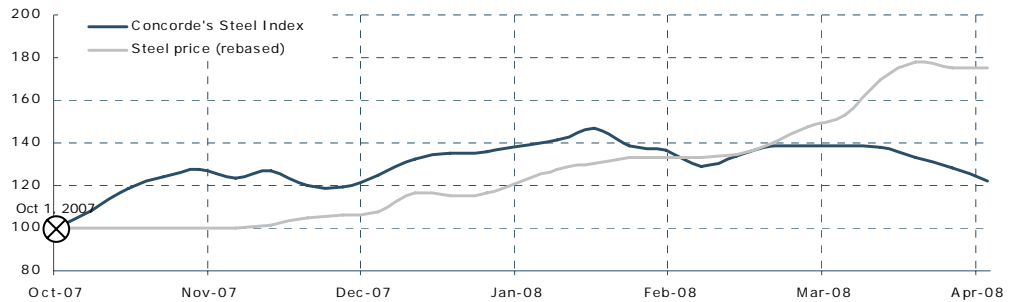
We are bullish on local steel plays that currently offer more attractive upsides than other metals & mining segments. On average, local steel names trade at 20-60% discounts to developed peers on market multiples, and at 10-50% discounts to Russian rivals.

	Price, USD	12M Target, USD	Upside	Rec	Change
ENMZ	76.14	140.0	84%	BUY	Maintain
DMKD	0.58	1.05	81%	BUY	Maintain
AZST	0.98	1.45	48%	BUY	Maintain
DMZP	0.33	0.55	67%	BUY	Upgrade
MMKI	1.19	1.70	43%	BUY	Maintain
ALMK	0.10	0.15	50%	BUY	Maintain
KSTL	3.70	2.70	-27%	SELL	Maintain
ZPST	8.25	N/R	-	N/R	-

⁽¹⁾ Concorde's Steel Index includes ALMK, AZST, DMZP, DNSS, ENMZ, KSTL, MMKI

Ukrainian steel sector unresponsive to rally in steel prices

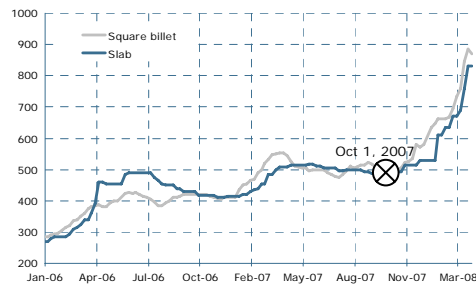
Concorde Capital's Steel Index vs. Steel price



Source: Metal-Expert, PFTS, Concorde Capital

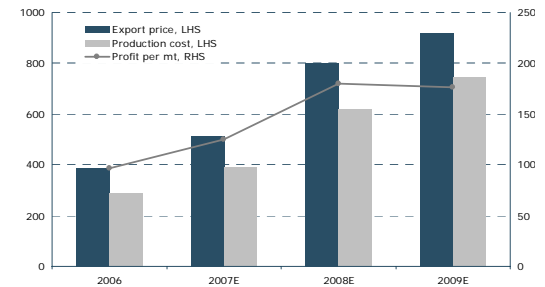
Strong profitability despite growing costs

Steel export prices, USD/mt (FOB, Ukraine)



Source: Metal-Expert

Billet: price vs. production cost, USD/mt



We believe that thanks to robust demand in 2008-2009, Ukrainian steelmakers will be able to pass their costs to end consumers. We forecast the production cost per mt of square billet to increase by 59% to USD 620 in 2008, due to a 65% increase in the price of sinter feed and a 80%-100% rise in the price of coke. This translates into a hike in the price of steel, according to our estimates, to USD 800 per mt of square billets on average, meaning that steelmakers' cash earnings will grow by about 40% to USD 180 per mt of steel in 2008-2009.

Financial revision

		Sales, USD mln			EBITDA margin, %			Net margin, %		
		old	new	chg, %	old	new	chg,pp	old	new	chg,pp
KSTL	2007A	3,724.8			27.9%			20.2		
	2008E	4,319.2	5,667.1	31.2%	28.5%	31.0%	1.5	18.0%	20.5%	2.5
	2009E	4,794.3	6,188.4	29.1%	28.0%	30.0%	2.0	18.0%	20.0%	2.0
DMKD*	2007E	1,520.0			13.5%			7.0%		
	2008E	2,356.0	2,682.2	13.9%	15.0%	14.5%	-0.5	7.5%	7.5%	0.0
	2009E	2,850.8	3,098.0	8.7%	15.0%	15.0%	0.0	8.0%	8.0%	0.0
AZST*	2007E	3,104.8			22.0%			13.9%		
	2008E	3,781.5	4,724.3	24.9%	22.0%	20.5%	-1.5	13.5%	12.0%	-1.5
	2009E	4,208.8	5,208.6	23.8%	21.5%	20.0%	0.5	13.0%	11.5%	-1.5
ALMK	2007A	1,775.2			11.5%			3.6%		
	2008E	2,412.0	3,977.5	65.0%	14.5%	14.0%	-0.5	6.0%	6.0%	0.0
	2009E	2,664.7	4,468.7	68.0%	15.0%	14.5%	0.5	7.0%	7.0%	0.0
ZPST*	2007E	1,881.1			15.0%			9.5%		
	2008E	1,720.3	2,657.8	54.5%	15.0%	13.5%	-1.5	9.3%	8.0%	-1.3
	2009E	1,842.4	2,818.6	52.9%	15.0%	13.0%	-2.0	8.5%	7.5%	-1.0
ENMZ*	2007E	1,015.0			15.2%			8.1%		
	2008E	1,171.0	1,504.4	28.5%	16.4%	15.5%	-0.9	9.3%	9.0%	-0.3
	2009E	1,364.8	1,721.7	26.2%	16.5%	15.5%	-1.0	11.0%	11.0%	0.0
DMZP*	2007E	532.5			21.0%			18.0%		
	2008E	620.3	784.6	29.5%	21.0%	19.0%	-2.0	18.0%	16.0%	-2.0
	2009E	670.9	832.1	24.0%	20.0%	18.0%	-2.0	17.0%	15.0%	-2.0
MMKI	2007A	3,543.3			13.9%			7.9%		
	2008E	3,807.5	4,901.2	28.7%	17.0%	15.5%	-1.5	12.0%	9.0%	-3.0
	2009E	4,177.8	5,352.0	28.1%	16.5%	15.5%	-1.0	11.0%	9.0%	-2.0

Source: Concorde Capital estimates, Company data

* 2007 financials not released yet

Peer Valuation

	MCap, USD mln	EV/S			EV/EBITDA			P/E		
		2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Ukrainian Peers										
Arcelor Mittal Kriviy Rih	14,119.8	3.7	2.5	2.2	12.4	8.0	7.5	19.6	12.3	11.5
DMK Dzerzhinskogo	1,621.9	1.1	0.6	0.6	8.4	4.4	3.6	15.1	8.0	6.5
Azovstal	4,094.6	1.4	0.9	0.8	6.2	4.4	4.0	9.4	7.2	6.8
Alchevsk Iron and Steel	2,457.6	1.6	0.7	0.6	14.0	4.7	4.0	39.1	10.5	8.0
Zaporizhstal	2,181.0	1.1	0.8	0.8	7.4	6.1	6.2	14.5	10.9	11.1
Enakievo Steel	789.6	0.9	0.6	0.5	5.8	3.6	3.2	10.6	5.9	4.2
DMP Petrovskogo	606.1	1.4	0.9	0.8	6.8	4.8	4.4	6.7	4.9	4.9
MMK Ilicha	4,002.1	1.1	0.8	0.7	8.1	5.3	4.7	14.7	9.3	8.3
Average		1.6	1.0	0.9	8.8	5.0	4.5	16.5	8.3	7.2
International Peers										
Gerdau	19,437.73	1.3	1.1	0.8	6.0	5.1	3.6	10.2	8.9	7.1
Usinas Sider Minas	19,704.96	2.2	2.2	2.2	6.2	6.5	6.7	10.2	10.4	10.9
Cia Siderurgica Nacional	28,911.68	3.9	3.4	3.3	8.7	7.3	7.4	15.9	12.6	11.4
Posco	41,856.72	1.7	1.6	1.6	6.2	5.9	6.0	10.3	9.8	10.2
Nippon Steel Corp	34,472.64	1.7	1.5	1.4	5.5	5.5	5.3	14.6	14.9	14.1
Tata Steel Limited	12,619.88	2.7	2.4	2.3	6.5	5.7	6.0	10.9	8.9	9.2
China Steel Corp	18,164.66	2.3	2.2	2.2	7.8	7.7	7.6	10.5	10.7	8.8
Baoshan Iron & Steel	30,992.26	1.1	1.0	0.9	6.0	5.3	4.9	12.4	11.2	11.1
Angang Steel	19,489.05	2.4	1.6	1.3	9.4	6.4	6.0	15.9	13.0	11.4
Maanshan Iron & Steel	5,803.28	1.3	1.0	0.9	9.0	7.0	6.9	16.7	13.8	12.0
Hyundai Steel	5,933.87	1.1	1.2	1.1	8.7	9.1	8.9	10.1	10.2	9.0
Nucor Corp	19,917.25	1.1	0.9	0.8	6.1	5.2	4.8	11.5	10.6	11.3
Average		1.9	1.7	1.6	7.2	6.4	6.2	12.4	11.2	10.6
Russian Peers										
Severstal	22,673.28	1.2	1.1	0.9	4.6	4.2	3.5	8.1	8.1	7.8
Novolipetsk Steel	24,272.57	3.1	2.7	2.5	6.9	5.6	5.6	10.7	9.4	9.0
Mechel	14,673.54	2.3	1.7	1.4	8.6	5.8	4.6	16.4	14.5	7.9
Magnitogorsk	13,959.32	1.4	1.3	1.2	5.4	4.9	4.4	8.0	7.5	7.9
Evrz Group	30,346.43	2.9	2.4	2.2	8.3	6.4	6.2	12.9	10.7	10.6
Average		2.2	1.8	1.7	6.8	5.4	4.8	11.2	10.0	8.7
Arcelor Mittal Kriviy Rih price										
Implied by Intern. peers avg, USD/share		1.96	2.54	2.68	2.18	2.99	3.08	2.34	3.38	3.38
Implied by Russian peers avg, USD/share		2.25	2.76	2.76	2.05	2.53	2.44	2.11	3.02	2.77
Upside/Downside to Intern. avg		-47%	-31%	-28%	-41%	-19%	-17%	-37%	-9%	-9%
Upside/Downside to Russian avg		-39%	-25%	-25%	-44%	-32%	-34%	-43%	-18%	-25%
DMK Dzerzhinskogo price										
Implied by Intern. peers avg, USD/share		1.00	1.58	1.77	0.49	0.86	1.01	0.48	0.81	0.94
Implied by Russian peers avg, USD/share		1.16	1.73	1.82	0.46	0.72	0.79	0.43	0.73	0.77
Upside/Downside to Intern. avg		73%	173%	205%	-15%	48%	74%	-18%	40%	62%
Upside/Downside to Russian avg		100%	198%	214%	-20%	24%	36%	-26%	25%	33%
Azovstal price										
Implied by Intern. peers avg, USD/share		1.37	1.85	1.96	1.13	1.44	1.50	1.28	1.52	1.51
Implied by Russian peers avg, USD/share		1.59	2.02	2.02	1.06	1.21	1.17	1.15	1.36	1.24
Upside/Downside to Intern. avg		41%	91%	102%	17%	48%	55%	32%	57%	55%
Upside/Downside to Russian avg		64%	109%	108%	10%	24%	20%	19%	40%	27%
Alchevsk Steel										
Implied by Intern. peers avg, USD/share		0.12	0.26	0.28	0.04	0.13	0.15	0.03	0.10	0.13
Implied by Russian peers avg, USD/share		0.14	0.28	0.28	0.04	0.11	0.12	0.03	0.09	0.10
Upside/Downside to Intern. avg		20%	163%	184%	-56%	38%	57%	-68%	7%	32%
Upside/Downside to Russian avg		41%	187%	193%	-60%	16%	22%	-71%	-4%	8%
Zaporizhstal										
Implied by Intern. peers avg, USD/share		1.41	1.69	1.67	0.80	0.87	0.82	0.71	0.85	0.79
Implied by Russian peers avg, USD/share		1.62	1.84	1.73	0.76	0.73	0.63	0.64	0.76	0.65
Upside/Downside to Intern. avg		71%	104%	103%	-3%	5%	-1%	-14%	3%	-5%
Upside/Downside to Russian avg		96%	123%	109%	-8%	-12%	-23%	-23%	-8%	-22%
Enakievo Steel										
Implied by Intern. peers avg, USD/share		168.7	239.8	261.0	95.60	140.2	153.8	90.73	146.3	192.1
Implied by Russian peers avg, USD/share		194.8	261.6	269.3	89.74	117.6	119.6	81.89	130.5	157.5
Upside/Downside to Intern. avg		119%	211%	238%	24%	82%	99%	18%	90%	149%
Upside/Downside to Russian avg		153%	239%	249%	16%	53%	55%	6%	69%	104%
DMK Petrovskogo Steel										
Implied by Intern. peers avg, USD/share		0.49	0.65	0.70	0.35	0.45	0.47	0.61	0.76	0.71
Implied by Russian peers avg, USD/share		0.57	0.72	0.72	0.33	0.37	0.37	0.55	0.68	0.58
Upside/Downside to Intern. avg		48%	97%	111%	7%	38%	44%	84%	131%	116%
Upside/Downside to Russian avg		73%	117%	118%	-1%	13%	11%	66%	106%	77%
Mariupol Ilicha Steel										
Implied by Intern. peers avg, USD/share		2.05	2.49	2.57	1.09	1.49	1.57	1.04	1.48	1.52
Implied by Russian peers avg, USD/share		2.35	2.71	2.68	1.03	1.26	1.24	0.94	1.32	1.24
Upside/Downside to Intern. avg		67%	103%	115%	-11%	21%	28%	-16%	20%	23%
Upside/Downside to Russian avg		91%	121%	118%	-16%	2%	1%	-24%	7%	1%

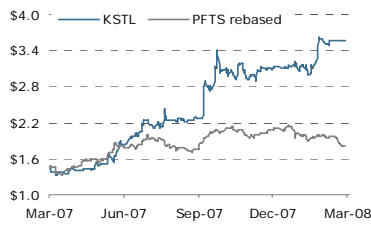
Source: Bloomberg, Thomson Financial, PFTS, Concorde Capital estimates

Note: Based on reported financials

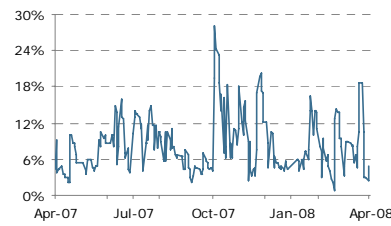
Stock market monitor

Arcelor Mittal Kryviy Rih

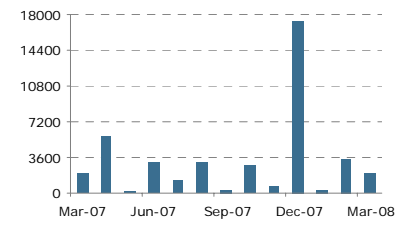
Price vs PFTS index



Spread, %

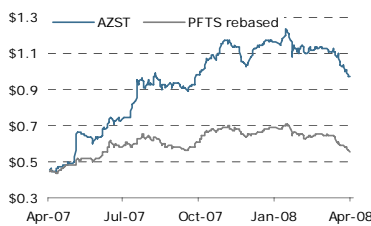


Trading volumes, USD ths

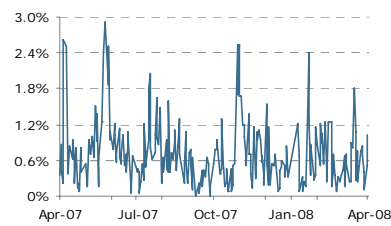


Azovstal

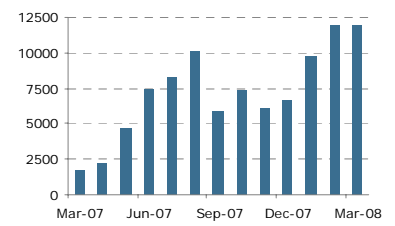
Price vs PFTS index



Spread, %

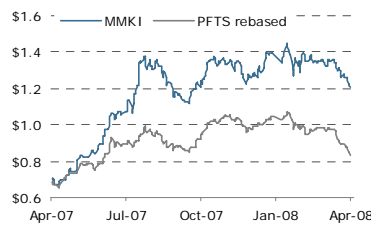


Trading volumes, USD ths

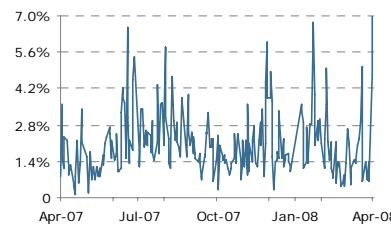


MMK Iilicha Steel

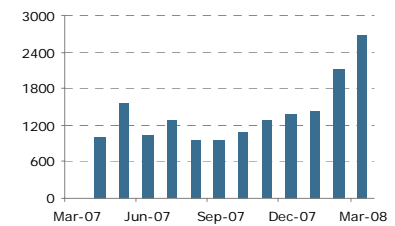
Price vs PFTS index



Spread, %

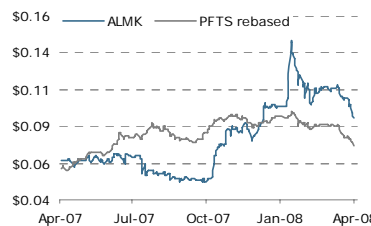


Trading volumes, USD ths

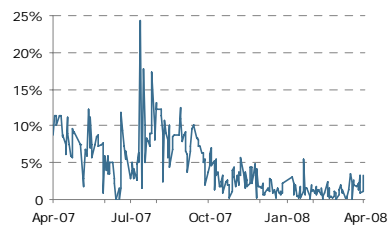


Alchevsk Iron & Steel

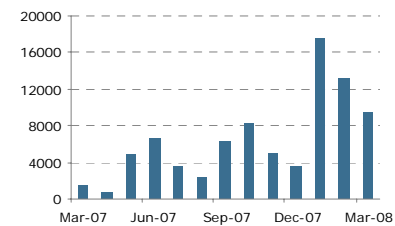
Price vs PFTS index



Spread, %

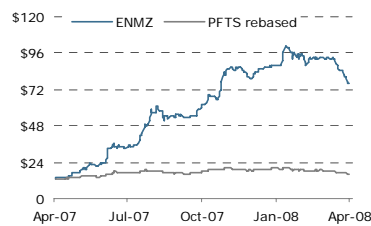


Trading volumes, USD ths

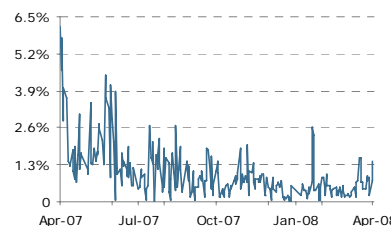


Enakievo Steel

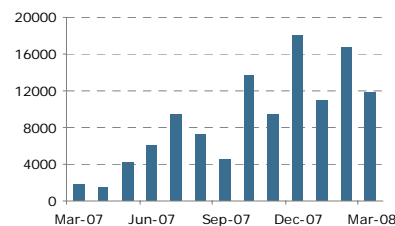
Price vs PFTS index



Spread, %



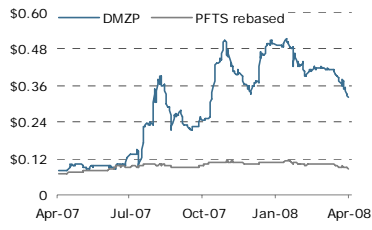
Trading volumes, USD ths



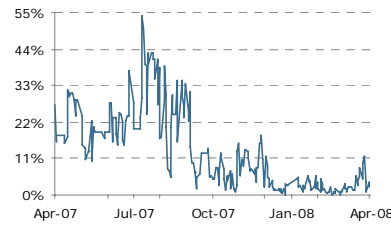
Source: PFTS

DMK Petrovskogo

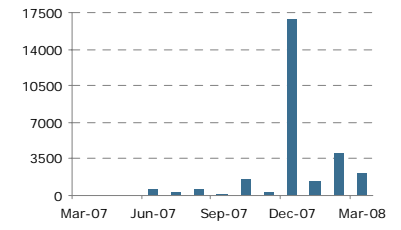
Price vs PFTS index



Spread, %

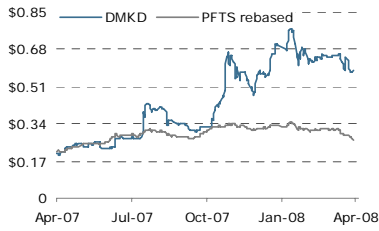


Trading volumes, USD ths

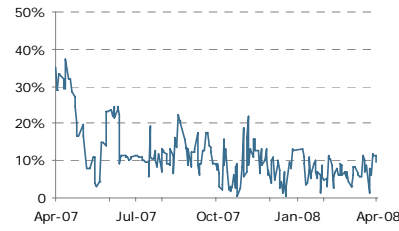


DMK Dzerzhinskogo

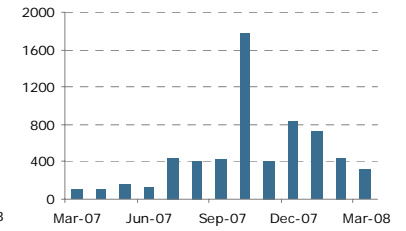
Price vs PFTS index



Spread, %



Trading volumes, USD ths



Source: PFTS

Disclosures

Analyst Certification

We, Eugene Cherviachenko and Andriy Gerus, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

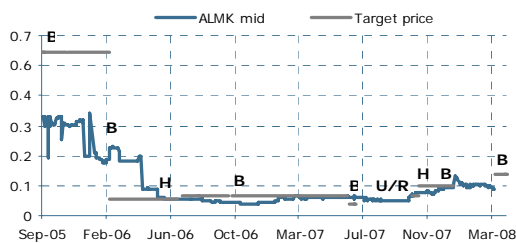
ALMK					KSTL					AZST				
Date	Target, USD	Market, USD	Rec'	Action	Date	Target, USD	Market, USD	Rec'	Action	Date	Target, USD	Market, USD	Rec'	Action
23-Sep-05	0.60	0.38	BUY	Initiating	4-Jan-05	0.45	0.35	BUY	Initiating	4-Jan-05	0.40	0.55	SELL	Initiating
15-Nov-05	0.60	0.32	BUY	Maintain	6-Jul-05	pending	0.48	HOLD	Downgrade	23-Sep-05	0.45	0.65	SELL	Maintain
14-Dec-05	0.60	0.35	BUY	Maintain	23-Nov-05	0.58	0.65	SELL	Downgrade	22-Mar-06	0.55	0.59	HOLD	Upgrade
8-Feb-06	0.06	0.03	BUY	Maintain	7-Nov-05	0.93	0.76	BUY	Upgrade	5-May-06	U/R	0.47	U/R	Suspend
30-Jun-06	0.07	0.10	HOLD	Downgrade	22-Mar-06	0.93	0.78	HOLD	Maintain	18-Aug-06	0.51	0.47	BUY	Maintain
11-Oct-06	0.07	0.05	BUY	Upgrade	18-Aug-06	0.91	0.76	BUY	Maintain	14-Jun-07	0.87	0.72	BUY	Maintain
28-Feb-07	0.07	0.04	BUY	Maintain	20-Nov-06	1.22	0.94	BUY	Maintain	19-Oct-07	1.35	1.09	BUY	Maintain
9-Jun-07	0.04	0.04	BUY	Maintain	22-Dec-06	1.22	1.22	HOLD	Downgrade	4-Dec-07	1.35	1.07	BUY	Maintain
27-Jun-07	U/R	0.07	U/R	U/R	19-Oct-07	2.20	3.13	SELL	Downgrade	2-Apr-08	1.45	0.97	BUY	Maintain
19-Oct-07	0.07	0.08	HOLD	Downgrade	4-Dec-07	2.20	3.00	SELL	Maintain					
1-Nov-07	0.11	0.08	BUY	Upgrade	2-Apr-08	2.70	3.70	SELL	Downgrade					
27-Nov-07	0.11	0.08	BUY	Maintain										
4-Dec-07	0.11	0.08	BUY	Maintain										
2-Apr-08	0.15	0.10	BUY	Maintain										

MMKI					DMZP					ENMZ				
Date	Target, USD	Market, USD	Rec'	Action	Date	Target, USD	Market, USD	Rec'	Action	Date	Target, USD	Market, USD	Rec'	Action
22-Mar-06	0.80	0.72	HOLD	Initiating	18-Aug-06	0.05	0.05	HOLD	Initiating	18-Aug-06	14.00	5.59	Spec BUY	Initiating
18-Aug-06	0.65	0.49	BUY	Upgrade	19-Oct-07	0.50	0.42	BUY	Upgrade	19-Oct-07	120.00	67.70	BUY	Maintain
19-Oct-07	1.50	1.36	HOLD	Downgrade	2-Apr-08	0.55	0.33	BUY	Maintain	26-Oct-07	120.00	72.00	BUY	Maintain
23-Nov-07	1.50	1.27	BUY	Upgrade						4-Dec-08	120.00	79.81	BUY	Maintain
4-Dec-07	1.50	1.26	BUY	Maintain						2-Apr-08	140.00	77.13	BUY	Maintain
2-Apr-08	1.70	1.23	BUY	Maintain										

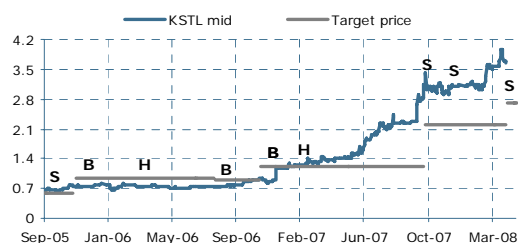
DMKD				
Date	Target, USD	Market, USD	Rec'	Action
20-Mar-08	1.00	0.61	BUY	Initiating
2-Apr-08	1.05	0.58	BUY	Maintain

Recommendation history

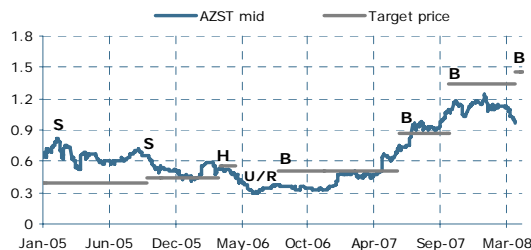
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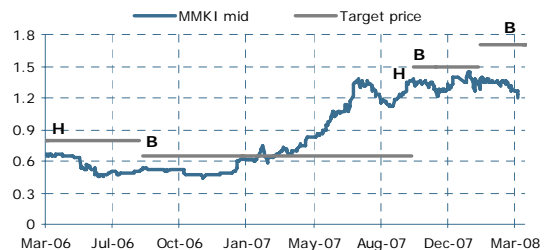
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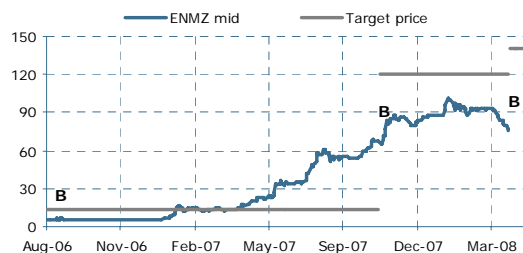
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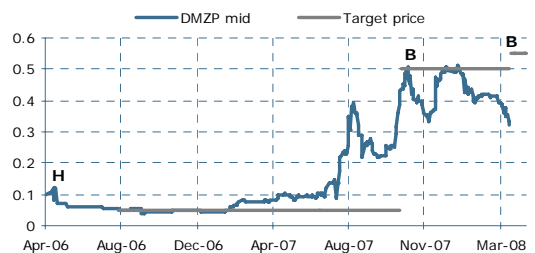
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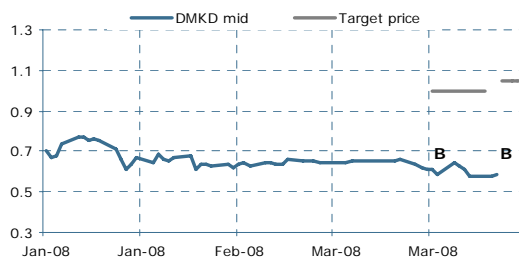
ENMZ



DMZP



DMKD



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Hold	26	23%
Sell	19	17%
Under Review	16	14%
Total	111	100%

Investment banking clients*

Buy	6	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	6	100%

* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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